ABN AMRO

Braveheart two

FRANKFURT

A Scottish bank takes another swig of Dutch courage

THE battle for ABN AMRO may result in the biggest takeover in banking history. It may also be one of the most complicated. On May 29th a consortium led by Royal Bank of Scotland (RBS) sweetened its bid for the big Dutch bank, offering 79% cash and a bit more clarity about how the three co-bidders would carve it up.

The consortium's offer, which now totals €71.1 billion ($95.5 billion), is about 11% more than a rival, solo bid from Barclays, a British bank. Less generous, the Barclays bid would also be much simpler, were it not stymied over a side-deal: the sale of LaSalle, ABN AMRO's Chicago subsidiary, to Bank of America. The Dutch Supreme Court must decide, probably next month, whether the sale can go ahead without a vote by ABN AMRO shareholders.

Ideally, RBS would like LaSalle for itself, as well as ABN AMRO's global wholesale and markets business. The rest of the group would be split between its two co-bidders: Fortis, a Belgian/Dutch group, and Spain's Banco Santander. Fortis would take over ABN AMRO's commercial and retail business in the Netherlands. The Spaniards meanwhile would get Banco Real in Brazil and Antonveneta in Italy, where they already have a presence.

Taking over a banking group sprawled over 53 countries is hard enough. Splitting its businesses three ways is an even bigger task. ABN AMRO, for example, is counterparty to derivatives worth an estimated €10 trillion in notional principal. Problems might arise were this portfolio to be moved from the Dutch-regulated entity to one regulated by Spain or Britain. According to RBS, ABN AMRO would continue to be a Dutch-regulated counterparty for as long as necessary. RBS would be answerable to the regulator until the Dutch and other watchdogs were comfortable with the consortium members taking over their shares of the business. Big and medium-sized customers would be divvied up in the Netherlands between RBS and Fortis, according to ABN AMRO's own classification drawn up in December 2005, RBS said.

Both Barclays and RBS have done this sort of thing before. Barclays stepped in for DFC, a bankrupt New Zealand mortgage bank in 1989, replacing it as a counterparty for all its interest-rate swaps. RBS successfully took over the books of NatWest, a bank bigger than itself, in 2000.

But other banks have fared less well. Dresdner Bank, for example, once tried to prepare Dresdner Kleinwort Wasserstein, its investment bank, for sale. It estimated that sorting out its ties to corporate customers would take 18 months to two years. The project was shelved.

For the moment, the takeover battle is finely poised. The RBS consortium has made the richer offer, but some of that premium may go to pay off Bank of America if LaSalle is not sold. There is little doubt that Barclays could pay for and execute its offer, with little damage to its credit rating.

There is less certainty about the consortium bid, even if the RBS spin-doctors have ready answers for each open question. Fortis must raise €15 billion in new equity and €8 billion through asset sales; Santander needs to raise up to €10 billion in new equity. Merrill Lynch, an investment bank advising the consortium, is lead underwriter for these share issues but there is no commitment yet on price. On May 30th Moody's, a rating agency, put RBS on a negative rating-watch, citing possible execution risk and the bank's relatively weak capital base.

These uncertainties may not be enough in themselves to scupper a deal, but there is a risk that regulators will discriminate against the RBS offer on the grounds of complexity. That would be a pity. If you are impatient to see Europe's banks carved up, sold and consolidated, the RBS approach is more exciting. Whether that is what a majority of shareholders would want is another matter. ■

Hedge funds

Hedge fundraising

The new moneymen give some back

"PEOPLE always say hedge funds charge an arm and a leg. We make sure we give that back." Chris Heasman of Lazards was speaking at a recent rock concert helping to raise money for A Leg To Stand On (ALTSO), a charity that provides children in the developing world with prosthetic limbs. His words may have been in rather dubious taste. But they sum up a growing philanthropic trend in the wealthy sector.

Mr Heasman was playing in "The Subscribers", one of five amateur bands performing at London's Café De Paris last month. ALTSO was the brain-child of Mead Welles, an American fund manager who came up with the idea when travelling through Asia. By chance, the father of one of Mr Welles's college friends was a prominent orthopaedic surgeon. Through him, Mr Welles discovered that the cost of providing a limb (around $250 on average) was too great for many poor families in countries like India to be able to afford.

The beta goes on

Hedge-fund managers seem to be following the well-trodden charitable trail blazed by 19th-century industrialists such as Andrew Carnegie and modern-day billionaires like Bill Gates. Perhaps, given their image as rapacious capitalists, there may be a touch of calculation about their efforts. But the recipients of their largesse are unlikely to care if the donors are motivated by altruism, public relations or a guilty conscience.

In Europe the best-known hedge-fund charity is ARK (Absolute Return for Kids). Established in 2002, it provides AIDS treatment in Africa, helps children escape from abusive orphanages in eastern Europe and finances education in Britain. ARK raised a remarkable $53m at this year's gala dinner, which included a speech by Bill Clinton, a fundraising appeal by Madonna and music by Prince. In America the Robin Hood Foundation, founded by Paul Tudor Jones, a commodity manager, has already distributed more than $500m from the rich to New York City's poor.

ALTSO's efforts were somewhat modest by comparison, with around $120,000 raised on the night. The audience, a rather awkward-looking bunch of men in suits eating canapés, was treated not to Prince, but to a collection of standards by bands with names like The Hypothecators and The Systematics. But the band members were at least able to indulge in some teenage wish-fulfilment. As Brad Cole, one manager-turned-musician said: "It hits a lot of numbers. It's a little bit of work, a little bit of fun and it's charitable."